

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5033-03  
Bill No.: Perfected HCS for HB 1311  
Subject: Taxation and Revenue - Sales and Use; Economic Development  
Type: Original  
Date: February 8, 2012

---

Bill Summary: This proposal modifies provisions relating to tax incentives for data storage technology business facilities.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
General Revenue	\$0	\$0	(More than \$1,109,074)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>(More than \$1,109,074)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
Conservation Fund	\$0	\$0	(More than \$100,000)
Park, Soil & Water Fund	\$0	\$0	(More than \$100,000)
School District Trust Fund	\$0	\$0	(More than \$100,000)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>(More than \$100,000)</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>(More than \$100,000)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Sections 67.2050 and 144.810 Data Storage Centers

In response to the previous version of this proposal, officials at the **Budget and Planning (BAP)** stated this proposal provides a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, computers, and construction materials used in a new data center. This proposal will not impact current General and Total State Revenues, but future revenues may be forgone. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Officials at the BAP assume this proposal provides a state and local sales tax exemption for electrical energy, gas, water, other utilities, machinery, equipment, and computers used by an expanding data storage center, to the extent the amount of new inputs exceed current input levels. This proposal also exempts construction materials for the expansion. This proposal will not impact current General and Total State Revenues, but future revenues may be forgone. This program may encourage other economic activity, but BAP does not have data to estimate the induced revenues. The Department of Economic Development may have such an estimate.

Officials at the **Department of Economic Development (DED)** assume the proposed legislation creates state and local sales and use tax exemptions for data storage centers and server farm facilities. DED is unable to determine the exact impact the proposed legislation will have on Total State Revenue and therefore anticipates an unknown negative impact. DED is responsible for determining eligibility for the exemption and also for the compliance and auditing functions required by the proposed legislation and anticipates the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III (\$40,212) and would be responsible for reviewing the project plan applications to make sure they meet the criteria of the program and conducting random audits to ensure compliance with the program.

**Oversight** assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DED could absorb the additional workload with existing resources. If this proposal created an unanticipated increase in the DED workload, or if multiple proposals were implemented which created a substantial increase in the DED workload, resources could be requested through the budget process.

Officials from the **Department of Revenue (DOR)** assume this proposal would create a sales and use tax exemption for data center operations. The proposal would reduce state revenues.

ASSUMPTION (continued)

Beginning August 28, 2012, the following would be exempt from sales and use tax:

- all electrical energy, gas, water and other utilities including telecommunication services used in a new data storage center
- All machinery, equipment and computers used in any new data storage center, and
- All sales at retail of tangible personal property and materials for constructing, repairing, or remodeling any new data storage center.

Entities would be required to submit a plan to DED to determine eligibility. DED would certify the project to the DOR, and would issue an exemption certificate to the taxpayer. Beginning August 28, 2012 an expanding data storage center could be exempt from sales and use tax with the same criteria as with a new data storage center.

DED would conduct random audits, and DED and DOR would create rules to carry out the provisions of this legislation. DOR and ITSD-DOR would also make programming changes to various tax systems. They estimated it would take 1,168 hours for a total cost of \$30,952.

DOR assumes that Collections & Tax Assistance (CATA) would have additional contacts due to this exemption, and would require one additional FTE Revenue Processing Technician I (\$25,380) per 15,000 additional contacts annually to the registration section, with CARES equipment and agent license, and one additional FTE Revenue Processing Technician I (\$25,380) per 4,800 additional contacts annually to the tax assistance offices, with CARES equipment and agent license.

DOR also assumes that Sales Tax would require one additional FTE Revenue Processing Technician I (\$25,380) for completion of amended returns and processing refunds. DOR officials submitted an estimate of the cost to implement this proposal including three additional FTE and the related fringe benefits, equipment, and expense totaling \$121,604 for FY 2013, \$121,957 for FY 2014, and \$123,240 for FY 2015.

**Oversight** assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DOR could absorb the additional workload with existing resources. If this proposal created a significant unanticipated increase in the DOR workload, or if multiple proposals were implemented, resources could be requested through the budget process.

Officials at the **Department of Conservation** assume an unknown negative fiscal impact to the Conservation Fund. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Any decrease in sales and use tax collected would decrease revenue to the Conservation Sales Tax

JH:LR:OD

ASSUMPTION (continued)

funds. The Department assumes DOR would be better able to estimate the anticipated fiscal impact that would result from this proposal.

In response to the previous version of this proposal, officials at the **Department of Natural Resources** assume this proposal would add additional sales tax exemptions which would decrease the amount of funding available in the Parks & Soils Sales Tax Funds. These funds have been used for the acquisition and development, maintenance and operation of state parks and historic sites and to assist agricultural landowners through voluntary programs. The Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Therefore, any additional sales tax exemption would be an unknown loss to the Parks and Soils Sales Tax Funds.

Officials at the **St. Louis County** assume the loss of sales tax revenue may not be great but can not be determined.

Officials at the **Parkway School District** assume while any reduction in sales tax due to additional exemptions or tax credits will reduce funding for the foundation formula and public education, there is not enough information to estimate the potential impact on Parkway.

Officials at the **City of Kansas City** assume this bill adds to the tools available to the City for the encouragement of economic development within its borders. It specifically provides certain new tools to Kansas City as it must respond to the job/business transfer out of Kansas City encouraged and facilitated by the State of Kansas. Although there are initial costs to economic development programs, they are designed to be implemented so the eventual success of the projects causes a net increase in revenue to the City and State of Missouri. Those figures cannot be estimated in a vacuum, but the proper application of these programs will result in new revenue.

**Oversight** notes that this proposal would require a minimum \$37 million investment in a new facility within thirty-six months, or a minimum \$5 million investment in an expanding facility within twelve months. The proposed project would require approval by the Department of Economic Development (DED) which would conditionally certify the project to the Department of Revenue (DOR). Upon completion of the project, DED would certify the project eligibility to DOR, and DOR would refund the sales tax paid on the project.

ASSUMPTION (continued)

If the proposal became effective August 28, 2012, construction could begin late in FY 2013 and would likely not be completed until late in FY 2014. Refunds would not likely be certified and paid to project owners until FY 2015.

**Oversight** is not aware of any existing or planned projects which could qualify for the program, but if one new facility project was completed in time for a refund to be paid in FY 2015, the sales tax amounts could be computed as follows. For fiscal note purposes, Oversight assumes the entire \$37 million investment would qualify for the exemption.

Entity	Sales Tax Rate	Sales Tax
General Revenue Fund	3%	\$1,110,000
Conservation Commission Fund	1/8%	\$46,250
School District Trust Fund	1%	\$370,000
Parks, Soil & Water Funds	1/10%	\$37,000
Local Governments	Average 2.5%	\$925,000

**Oversight** will indicate a revenue reduction in excess of \$1,000,000 for FY 2015 for the General Revenue Fund, and greater than \$100,000 for local government and other state funds which receive sales tax revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - sales tax exemption	\$0	\$0	(More than \$1,000,000)
<u>Cost</u> - Dept of Revenue Computer programming	<u>\$0</u>	<u>\$0</u>	<u>(\$109,074)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(More than \$1,109,074)</u></b>

JH:LR:OD

**CONSERVATION FUND**

<u>Revenue Reduction</u> - sales tax exemption	<u>\$0</u>	<u>\$0</u>	<u>(More than \$100,000)</u>
--	------------	------------	------------------------------

<b>ESTIMATED NET EFFECT ON CONSERVATION FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(More than \$100,000)</u></b>
--	-------------------	-------------------	-------------------------------------

**PARK, SOIL & WATER FUND**

<u>Revenue Reduction</u> - sales tax exemption	<u>\$0</u>	<u>\$0</u>	<u>(More than \$100,000)</u>
--	------------	------------	------------------------------

<b>ESTIMATED NET EFFECT ON PARK, SOIL &amp; WATER FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(More than \$100,000)</u></b>
--	-------------------	-------------------	-------------------------------------

**SCHOOL DISTRICT TRUST FUND**

<u>Revenue Reduction</u> - sales tax exemption	<u>\$0</u>	<u>\$0</u>	<u>(More than \$100,000)</u>
--	------------	------------	------------------------------

<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(More than \$100,000)</u></b>
---	-------------------	-------------------	-------------------------------------

<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
---	---------------------	---------	---------

**LOCAL GOVERNMENT FUNDS**

<u>Revenue Reduction</u> - sales tax exemption	<u>\$0</u>	<u>\$0</u>	<u>(More than \$100,000)</u>
--	------------	------------	------------------------------

<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENT FUNDS</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(More than \$100,000)</u></b>
---	-------------------	-------------------	-------------------------------------

FISCAL IMPACT - Small Business

Small businesses who qualify for the credit or sales tax exemption could have a fiscal impact.

### FISCAL DESCRIPTION

This bill changes the laws regarding community improvement districts, municipal technology business facility projects and data storage centers.

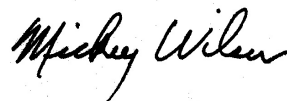
Beginning August 28, 2012, the bill authorizes a state and local sales and use tax exemption on items related to new data storage centers and server farm facilities.

Beginning August 28, 2012, the bill authorizes a state and local sales tax exemption on items related to expanding data storage centers and server farm facilities.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Budget and Planning  
City of Kansas City  
Department of Conservation  
Department of Economic Development  
Department of Natural Resources  
Department of Revenue  
Parkway School District  
St. Louis County



Mickey Wilson, CPA  
Director  
February 8, 2012